



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

6278

**Testimony of Thomas R. Sullivan
Commissioner of the Connecticut Insurance Department**

**Before the
Insurance and Real Estate Committee**

Thursday, February 19th, 2009

House Bill No. 6278 - An Act Concerning Insurance Guaranty Fund Credits

Raised Bill 6278 –An Act Concerning Insurance Guaranty Fund Credits has been introduced at the request of the Connecticut Insurance Department. The Department would like to thank the Committee for introducing this initiative on our behalf.

Current law provides that insurance companies may offset their premium tax liability by 100% of the amount of assessments they pay to the Connecticut Insurance Guaranty Association ("CIGA") or to the Connecticut Life and Health Insurance Guaranty Association ("CLHIGA"). Raised Bill 6278 will adjust the premium tax offset to 50%.

The Department believes that Connecticut should require insurers to share the economic loss associated with providing the insurance insolvency protection for consumers of insurance products as a cost of doing business. This concept is much like what exists for banking institutions which, as a cost of business, are required to pay the Federal Deposit Insurance Corporation for protection of customers' deposits at rates based on the assessable deposits and the risk category of the bank. As explained more fully below, this legislation will provide a greater economic stake for insurers with respect to the costs of the insurance guaranty associations, including a greater sensitivity toward expenditures each association authorizes, rather than simply passing 100% of such costs as a premium tax offset to state revenue that otherwise would be collected.

By way of background, CIGA was established in 1971 and for thirty years, the law provided a safety net for consumers of insolvent property and casualty insurers utilizing assessments paid by member insurers to fund CIGA protection. These guaranty association assessments were recouped in the premium rates insurers charged by the insurers without any premium tax offset. However, in 2000, (during better economic times) the legislature changed the CIGA Act to fully socialize the costs of guaranty association assessments by establishing a 100% premium tax offset with a right to transfer any premium tax credit to an affiliate. This change in the law was part of a 91 page amendment to a bill passed on the last day of the legislative session. This same legislation in 2000 also changed the CLHIGA Act to provide a similar 100% premium tax offset for insurers writing life and health insurance in Connecticut.

CLHIGA was established in 1972 to serve as a safety net for consumers of insolvent life and health insurers utilizing assessments paid by member insurers to fund CLHIGA benefits. Since its inception, CLHIGA member insurers were authorized to offset their premium tax with 50% of any assessment they pay to CLHIGA. Unlike CIGA members' property and casualty insurance premiums which are subject to adjustment at renewal for which CIGA assessments are based, CLHIGA's life insurance premiums, and premiums for certain forms of health insurance, cannot be changed on existing policyholders. Thus, it was recognized by the legislature in 1972 that recoupment of CLHIGA assessments by member insurers is virtually unattainable through existing policy premium rates and is impractical for building CLHIGA assessments into rates for future policyholders. Therefore, CLHIGA member insurers were granted the right to offset their premium tax liability by 50% of the amount of assessments they pay to CLHIGA for the protection of insureds.

The Insurance Department believes it is in the public interest to adopt Raised Bill No. 6278. Doing so will fairly balance need to require insurers to share the costs of insolvency fund protection for the products they sell. Incidentally, it also will reduce the loss of state tax revenue associated with guaranty fund tax offsets if an insurance company were to become insolvent.

Thank you once again, for introducing this concept on our behalf. We would be happy to answer any questions you may have.